Economic News
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CANADA – UNITED STATES

Lower gasoline prices are driving inflation down

HIGHLIGHTS

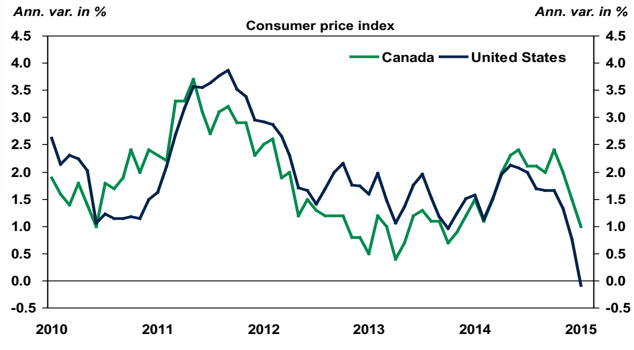
- In **Canada**, the all-items consumer price index (CPI) dipped by 0.2% in January. The total annual inflation rate fell from 1.5% to 1.0%.
- The main components that contributed to the monthly decline in the index are gasoline (-12.4%), tour packages (-6.5%), women's clothing (-2.5%), fuel oil (-8.8%) and baked goods (-1.8%). Conversely, the components that contributed the most to raising the CPI are fresh fruit (+6.6%), fresh vegetables (+5.2%), purchases of motor vehicles (+0.6%), men's clothing (+2.2%) and non-alcoholic beverages (+5.5%).
- In the **United States**, the CPI dropped by 0.7% in January after two straight declines of 0.3%. Energy prices tumbled by 9.7% due to the 18.7% slump in gasoline prices. The core index, which excludes food and energy, rose by 0.2% after a 0.1% uptick in December. For the first time since October 2009, the annual change in the all-items CPI has crossed into negative territory, to -0.1%. Core inflation has held steady at 1.6%.

COMMENTS

In **Canada**, the January data are pretty much in line with our expectations. The lower gasoline prices alone pushed the total CPI down by 0.6% during the month. However, this was partly offset by seasonal increases in the prices of fresh fruits and vegetables, and by the price increases that take effect at the beginning of each year.

For the coming months, even though gasoline prices have stabilized (a rally of 9.2% is even recorded in February), we should expect the total annual inflation rate to keep falling due to the impact of the base effects that have built up from the significant declines in energy prices since last summer. Therefore, the total annual inflation rate could remain below the low end of the target range (1%) until next fall. On the other hand, the annual change in the core index (CPIX) will probably stay close to the median target (2%).

Inflation pulls back significantly in both Canada and the United States



Sources: Statistics Canada, Bureau of Labor Statistics and Desjardins, Economic Studies

In the **United States**, it was clear that the slump in gasoline prices, which intensified in January, would drive inflation into negative territory. However, the drop is less pronounced than we might have expected; meanwhile, the core CPI rose slightly compared to recent months. On this side of the equation, we note faster price growth for housing and for clothing.

Implications: In **Canada**, the temporary weakness in total inflation should not be a key factor in the administration of monetary policy, especially since core inflation is still under control. It is mainly concerns about the immediate and long-term negative effects of lower oil prices on the Canadian economy that will attract attention. In the **United States**, inflation is likely to remain in negative territory until the summer. The Federal Reserve should wait for inflation to climb back up (probably in August) before it raises its key interest rates, possibly in September.

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

François Dupuis
Vice-President and Chief Economist

514-281-2336 *or* 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist